

OVERCOMING INFRASTRUCTURE CONSTRAINTS

Infrastructure is central to sustainable development and economic competitiveness, and sub-Saharan Africa lags behind the rest of the world in its level of infrastructure development. Recognizing this, the United States has committed \$200 million through the African Global Competitiveness Initiative (AGCI) to boost Africa's competitiveness, including through overcoming infrastructure constraints in the energy, transport, and information and communications technology (ICT) sectors. Over the five-year span of AGCI, the Initiative aims to leverage \$1 billion in new investment in sub-Saharan Africa in the energy, transport, and ICT sectors.

DEVELOPMENT CHALLENGE

Inadequate infrastructure has long constrained Africa's economic growth and competitiveness. With some 800 million citizens, the 48 sub-Saharan African countries produce collectively about as much power as Spain, which has only 1/18th of the population. In many countries, the lack of affordable and reliable power is cited by investors as the number one constraint to doing business. Despite its great potential – including in clean energy resources such as hydropower, solar, wind, and geothermal – investment in new facilities has been woefully inadequate, creating a chronic supply imbalance. Investment in maintaining existing infrastructure has also lagged, leaving many African countries with degraded and inefficient electricity services; poor quality roads, railways, and ports; and an inadequate ICT backbone.

In the power sector, privately supported electricity projects can help alleviate the shortages, but the

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AGCI IMPLEMENTATION

AGCI's infrastructure component objectives are achieved by providing timely, targeted technical assistance and expertise to help overcome constraints and leverage non-USAID funds to finance infrastructure projects. USAID's work under the infrastructure component requires partnering with a range of national government agencies, regional institutions, and the private sector to improve the enabling environment for private investment in infrastructure, improve regulator capacity to design and manage complex infrastructure projects, and bring projects to financial closure. To advance its aims, the infrastructure component works in several ways to help overcome infrastructure constraints, including:

1. Partnering with private companies and other infrastructure initiatives focused on Africa;
2. Serving as an analytic leader in developing regional infrastructure solutions, including through supporting sub-Saharan Africa's power pools and transport corridors;
3. Drawing on technical expertise from other U.S. Government (USG) agencies, where appropriate; and
4. Fielding a broad range of technical experts to advance infrastructure projects on a demand-driven basis.

number of successful private projects remains small. Why? The commercial, political, legal, and regulatory obstacles in many countries are great. The commercial and financial arrangements of privately sponsored electricity projects can be very complex and host governments often lack essential project

structuring and negotiating skills. These factors make it difficult to bring private projects to financial closure in sub-Saharan Africa.

In the transport sector, the continent is characterized by fragmentation, inadequate capacity, and poor performance. Trading across the region's 48 national borders can be cumbersome, with multiple customs checks, differing technical standards, and informal checkpoints in some countries. For a continent of its size, Africa's road and rail network is sparse and many of its sea and airports are in need of refurbishment and expansion.

At the administrative level, most African countries need to increase efficiency in customs administration, cargo handling, and logistics services. As a result, shipping goods to and from Africa is more expensive, slower, and more cumbersome than in other developing regions. According to the World Bank's 2009 *Doing Business*, with few exceptions most sub-Saharan African countries rank in the bottom 40 percent of all countries in the trading across borders indicator.

The continent's drive toward regional integration, spearheaded by the major Regional Economic Communities (RECs), has made significant progress, but many policy, regulatory, and administrative obstacles remain to creating fully functional regional markets. Compared to other world regions, the volume of intra-regional trade remains low within sub-Saharan Africa.

In the ICT sector, Africa has made good progress in recent years, particularly in mobile phone density, but still lags behind the rest of the world for access

to all telecommunications services. Access to Internet services is especially low with only three in 100 in sub-Saharan Africa using any type of Internet services (in contrast to 43 users per 100 in Europe). Africa accounts for less than 1 percent of the world's use of broadband, the service level becoming a given for business in developed countries. Such poor access to affordable telecommunications services hampers economic growth and trade throughout Africa. The use of modern ICT solutions throughout governments and businesses in Africa remains subpar, making manual processing of trade, regulatory, and financial transactions the norm in many countries.

DEVELOPMENT HYPOTHESIS AND PROGRAM

Taken as a whole, these infrastructure constraints erode Africa's competitiveness and make bringing African goods and services to the world marketplace a challenge. Under AGCI, USAID is working to program targeted technical assistance to overcome infrastructure constraints in the energy, transport, and ICT sectors.

In regard to energy, USAID's featured program is the Africa Infrastructure Program (AIP). Launched in 2008, the AIP seeks to help commercially viable and environmentally sound electricity projects overcome barriers preventing their reaching financial closure and getting constructed. It accomplishes this by funding and providing experts in non-recourse project finance to help advance African energy projects.

The AIP recognizes the importance of structuring electricity projects in a manner that is fair and equitable to all participating parties, where all key project risks are addressed and assigned to parties best capable of assuming them, and concerns of project financiers are fully addressed. Negotiating transactions in that way increases the project's long-term viability and provides incentives for both governments and developers to be committed to supporting the project throughout its lifespan. Often this includes the need to structure deals as public-private partnerships to attract public support and facilitate donor and commercial financing. In so doing,



the AIP seeks to leverage new electricity sector investments by offering late-stage transactional services to African governments or project developers currently engaged in project negotiations.

The AIP is highly flexible and responsive, enabling USAID to mobilize virtually any type of technical assistance that will help a project resolve outstanding issues that prevent it from coming to financial closure. By successfully accelerating the closure of pending projects, AIP anticipates that other sub-Saharan African governments, project developers, bankers, and investors will be encouraged to seek to replicate these successful projects, further leveraging additional private investment elsewhere in the region.

Typical AIP support may include:

- Technical, financial, market, and legal advisory support in reviewing projects, negotiating project agreements, analyzing costs and tariffs, and reviewing investor returns;
- Technical advice on environmental compliance and social protocols and impacts;
- Advice on associated complementary new regulations and legislation;
- Technical support in resolving engineering, procurement, and construction issues; and
- Building regulator capacity and improving local stakeholder communications.

AGCI's transport sector work is largely focused on providing technical assistance to support regional integration, build capacity in regional and national trade and customs agencies, and analyze and remove barriers to trade along major transport corridors. Typical activities undertaken by AGCI in the transport sector include:

- Performing technical analysis and capacity building to leverage new investment in the transport sector;
- Supporting the development of one-stop border posts and electronic data interchange among national customs agencies;

- Providing legal and technical analysis to advance the implementation of regional trade protocols and agreements in coordination with the RECs;
- Identifying and removing cumbersome and illicit checkpoints along major transport corridors; and
- Providing training and capacity building for national and REC officials.

In the ICT sector, AGCI is active in several countries to expand the use of ICT applications, including through innovative public-private partnerships. AGCI helps create and promote legal and regulatory environments that enable the formation and success of community-based providers in the ICT sector. Technical assistance is provided to regional organizations promoting expanded ICT services, national-level regulators, and local communities and businesses to establish and operate ICT cooperatives and community-based systems. Some examples of AGCI's ICT work include:

- Partnering with Intel to help small businesses take advantage of new broadband capabilities for interacting with major American buyers; and
- Collaborating with MTN, a prominent African mobile network operator, so that a new product for cross-border and cross-currency financial transactions on cellular phones can be targeted toward small businesses.

SUSTAINABILITY OF IMPACT

AGCI works to increase African capacity to attract new investment in infrastructure and improve the regulation of national and regional infrastructure services. By helping to create a more attractive enabling environment for private investment in infrastructure, seeking to help bring transactions to successful financial closure, and improving indigenous capacity to regulate and attract private investment, USAID is helping sub-Saharan Africa sustainably meet the infrastructure challenges facing the continent. In this way, AGCI contributes to Africa's goal of becoming increasingly integrated regionally and as a continent and more competitive in the global marketplace. ♦